Economics of Poverty and Discrimination, Econ 248
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Problem Set on Basic Concepts of Neo-Classical Economics and Labor Markets

1. What is the effect on the price of bratwursts (a type of sausage) and the quantity of bratwursts sold if:

a. The price of a hamburger rises?
b. The price of a bratwurst bun rises?
c. Consumers' incomes decrease?
d. The wage rate of a bratwurst seller increases?
e. The wage rate of a bratwurst seller decreases and at the same time consumers' incomes increase?

2. What is the effect on the wage rate and the equilibrium quantity of labor if:

a. Workers increase their skill levels?
b. A method is developed to melt snow on driveways as it falls? (Assume that we are talking about the Milwaukee labor market, rather than the Florida labor market!)
c. Income tax rates increase?
d. People start to care more about the future and there is an economic recession (i.e. there is a general decrease in demand for all goods in the economy)?

3. Assume J.K. Rowling, the author of the extremely successful Harry Potter book series, renegotiates her contract for writing another in the series that basically doubles the amount she receives for every copy of the book that is sold. Meanwhile the upcoming movie of the previous book is expected to increase the hype surrounding the newest volume in the series. How will these two factors affect the market for the newest Harry Potter book?

4. As a budding economics student, you are brought in to the UWM administration as a consultant on the market for short economics professors. Chancellor Santiago wants to know how two factors may affect this market. The first factor is the recent personal income tax rate decreases passed in Congress. The second factor is that recession has caused state budgets (including Wisconsin's) to become much tighter, meaning that they cannot support as many students going on to public higher education. Draw and explain a diagram which summarizes these changes and show to Chancellor Santiago what will happen to equilibrium wages and employment in the market for short economics professors.